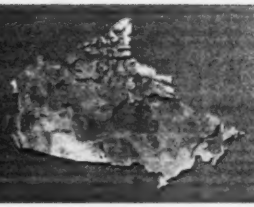

Canadian Natural Gas

›› Monthly Market Update

October 2009

›› Oil and Gas Policy, Analysis and Regulatory Affairs Division
Petroleum Resources Branch
Energy Sector

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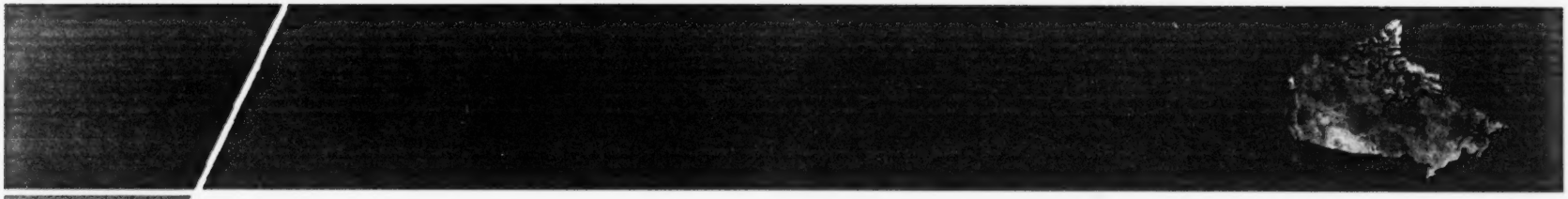

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Foreword

The Canadian Natural Gas: Monthly Market Update is a monthly analytical paper prepared by the Petroleum Resources Branch of Natural Resources Canada. The report provides the most recently available data on natural gas prices and related fundamentals.

Please direct any comments or questions to Laura Cervoni at (613) 992-1023, or by email at laura.cervoni@nrcan.gc.ca

Executive Summary

The Alberta price for natural gas delivered under 30-day contract for the month of October was $3.12/GJ, down about 50 percent compared to October 2008. Year-to-date natural gas prices are among the lowest of the decade. Natural gas prices remain low both in absolute terms, and also relative to crude oil prices. Today's low natural gas prices can be attributed to the global economic downturn, mild weather, high storage levels and declining exports to the US. Canadian heating degree days in November are expected to be below the 30-year normal. Warm weather continues to exert downward pressure on prices.

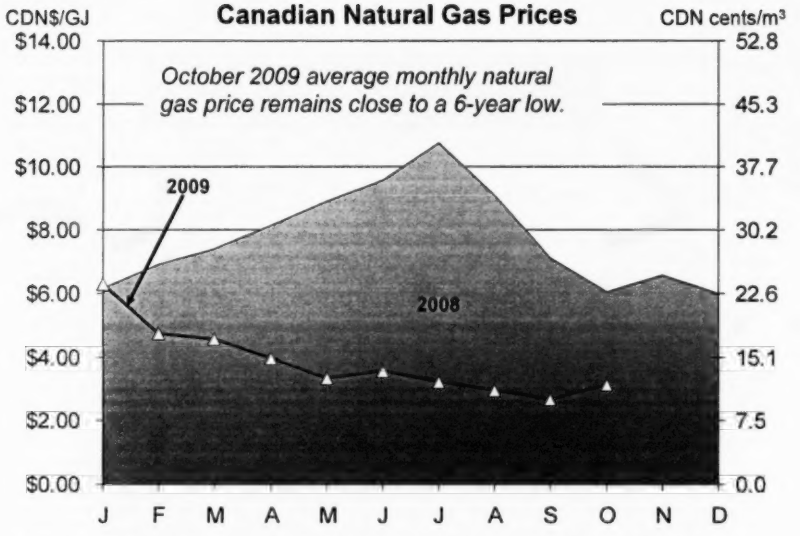
Canadian natural gas production continues to decline due to reduced drilling, and a maturing resource base, with lower well productivity. In response to low prices and full storage facilities during summer/fall 2009, many producers shut in some of their natural gas wells which is having a negative effect on production. Canada has not yet experienced the production increases on account of shale gas, as has the United States. However, unconventional natural gas development is still expected to increase in Canada.

Natural Gas Market Fundamental	Value	Percentage Change	
		Month 09 vs. Month 08	Month 09 vs. Previous Month 09
Prices, CAN $/GJ (Oct-09)	3.12	-49%	17%
Heating Degree Days (Oct-09)	341	-15%	301%
Production, Bcf (Aug-09)	402	-11%	-3%
Sales, Bcf (Aug-09)	139	1%	1%
Exports, Bcf (Aug-09)	288	-1%	8%
Imports, Bcf (Aug-09)	42	54%	11%
Storage, Bcf (Oct-09)	595	7%	6%
Drilling, wells (Oct-09)	195	-85%	5%

Note: GJ: Gigajoule; Bcf: Billion Cubic Feet

Sources:
- *Crude Oil and Natural Gas (Preliminary)*, Statistics Canada
- *Natural Gas Transportation and Distribution, 55-002*, Statistics Canada
- *Supply and Disposition of Crude Oil and Natural Gas, 26-006*, Statistics Canada
- *Drilling Highlights*, Daily Oil Bulletin website: www.dailyoilbulletin.com
- Canadian Natural Gas Focus, GLJ Energy Publications Inc.
- *Natural Gas Storage Survey*, Canadian Enerdata Ltd.
- *Natural Gas Export Statistics*, National Energy Board website: www.neb-one.gc.ca
- Canadian Gas Association, website: www.cga.ca

Figure 1

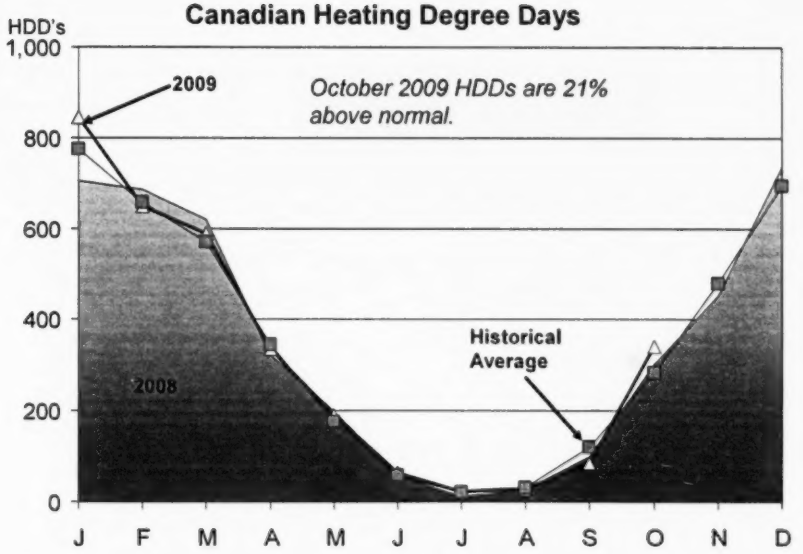


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market, a.k.a. AECO . The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

AECO natural gas prices averaged CDN $3.12/GJ in October 2009, 17% higher than the previous month and 49% lower than October 2008.

Figure 2



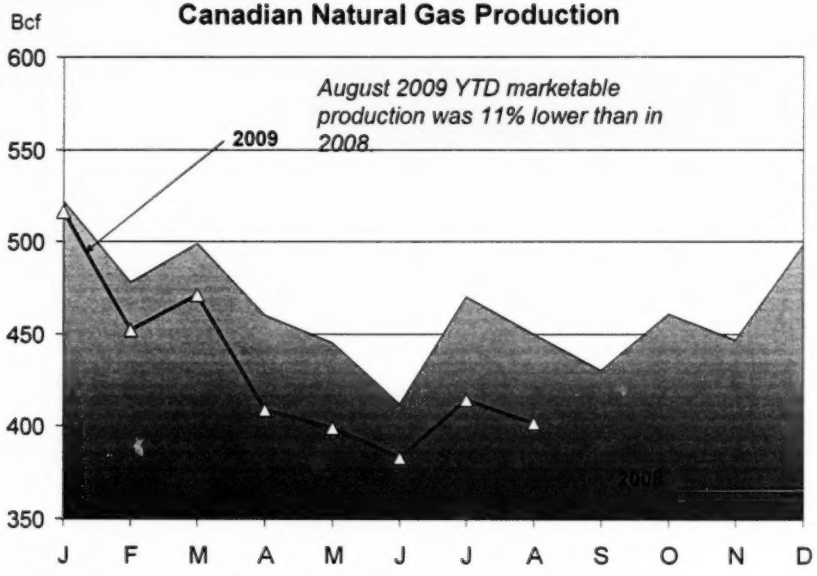
Source: Canadian Gas Association, NRCan

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If a winter is unusually cold, demand for space heating will respond accordingly and natural gas prices will tend to be stronger. However, during a mild winter, natural gas demand for space heating will be weaker, which will tend to moderate prices.

In October 2009, there were 341 HDDs, 15% less than October 2008. On average, October 2009 had 21% more HDDs than normal.

Figure 3

Canadian Natural Gas Production



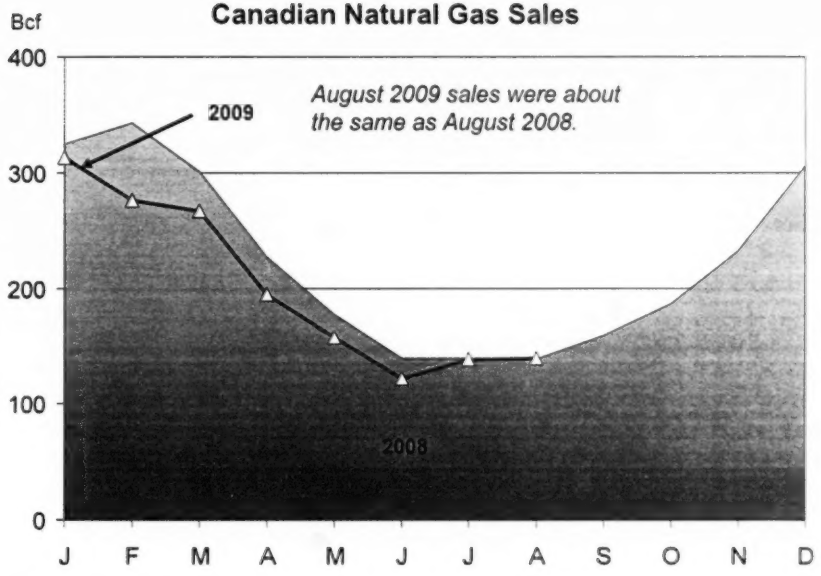
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

Marketable natural gas production for August 2009 was 402 Bcf, 11% lower than 2008.

Figure 4

Canadian Natural Gas Sales



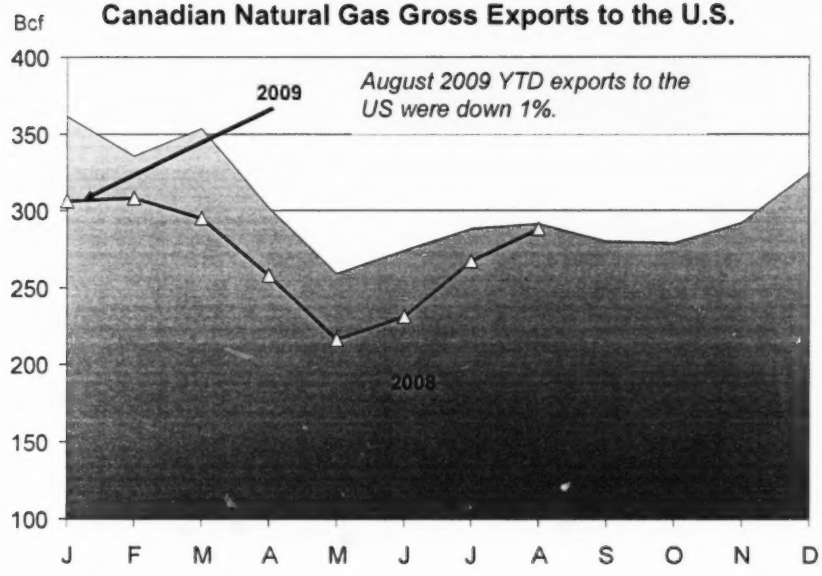
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in August 2009 were 139 Bcf, 1% higher than August 2008.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



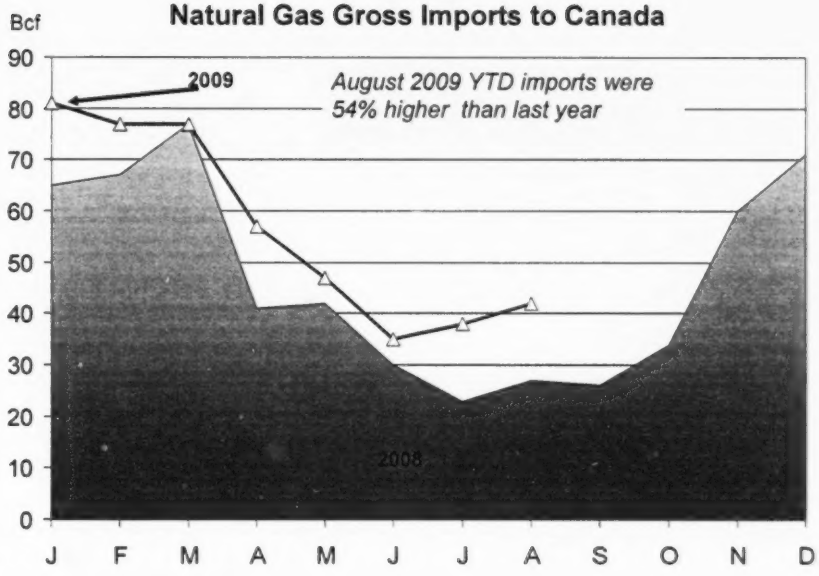
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met mostly by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In August 2009, natural gas exports to the U.S. were 288 Bcf, 1% lower than August 2008.

Figure 6

Natural Gas Gross Imports to Canada



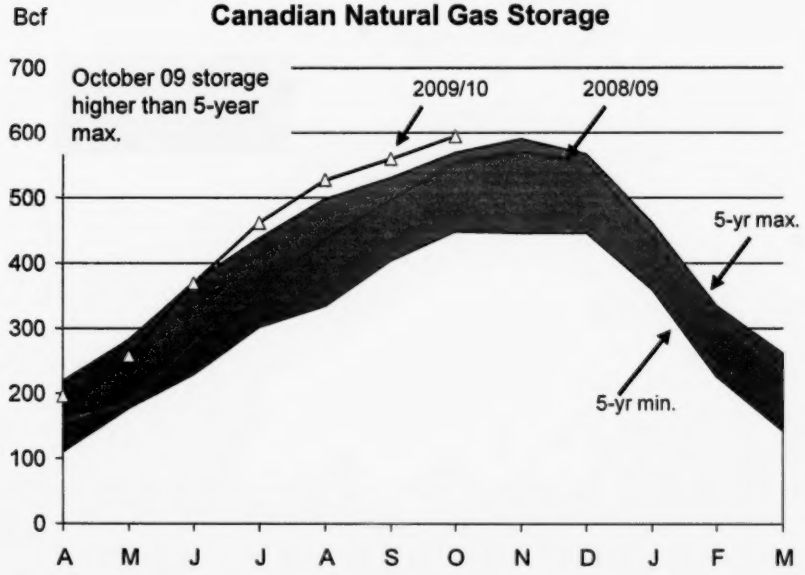
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In August 2009, natural gas imports to Canada were 42 Bcf, 54% higher than August 2008.

Figure 7

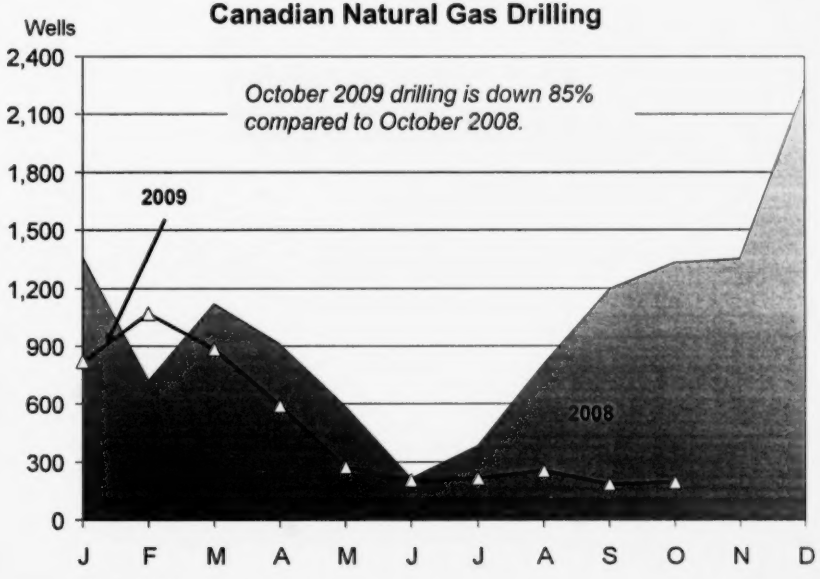
Canadian Natural Gas Storage



Source: Canadian Enerdata

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 7 illustrates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories increased 36 Bcf during the month of October 2009 compared to September 2009. Storage levels in October 2009 were 595 Bcf, 7% higher than the year prior, and above the 5 year maximum.

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

There were 195 natural gas wells drilled in October 2009, a decrease of 85% from October 2008.